AGRICULTURAL OUTLOOK DIGEST

AOD-170

ECONOMIC RESEARCH SERVICE • U.S. DEPARTMENT OF AGRICULTURE • SEPT. 1971

ECONOMIC REMEDIES AND THE FARMER

Tax relief and the prospective easing of inflationary pressures on costs are the main ways in which the farmer and his family will benefit from the President's recent economic package. Impacts on demand for farm products at home and abroad this year may not be as great, although the longer-run implications may prove more significant.

The economic measures probably will have little effect on cash receipts from farm marketings during the 90-day freeze. Prices of raw agricultural products are exempted from direct control, and most of these items will be declining seasonally. Farm sales in the next few months will be governed largely by prospects for record 1971 crops and continued large output from the livestock sector.

Cash receipts in the second half of 1971 are expected to be significantly above a year earlier. Crop receipts will be bolstered by increased sales from the record volume of crop output. And livestock receipts are likely to rise because of improved prices, mainly for hogs, which were at depressed levels last fall and winter.

The economic measures should help farmers hold down farm production expenses, which rose sharply earlier this year, offsetting first-half gross income gains. Feed costs will be lower in the second half of the year. And the 90-day price freeze comes at harvesttime, fairly well locking in farm wage rates and prices on items such as harvesting equipment and fuel.

With larger cash receipts and a slowing in production costs, net farm income in the second half will average well above the depressed level of a year earlier. With lower income in 1971's first half, however, total net income from farming for the year as a whole will be about the same as the $15.7 billion of last year; net income per farm likely will be up a little from the $5,374 of 1970. Also, farm-family earnings from off-farm sources probably will rise again this year. In addition, the price freeze will help hold down family living expenses.

COMPLEX EFFECT ON FARM PRODUCT DEMAND

The effects of the assorted economic stimuli on demand for farm products are hard to judge right now. The full package, if enacted, may result in a little slower rise in dollar incomes, but real income and purchasing power gains should be larger in 1972.

The immediate effect on domestic food spending of the selective food price freeze along with other actions that could influence consumers is hard to predict. Food spending so far this year is up around 6% ahead of last year's record $114 billion rate, with

FREEZE ACTIONS

Some measures the President announced on August 15 took effect then. Others need Congressional approval.

These measures are already in effect:

*Freeze on wages, salaries, and fees.

*Ceiling on prices of goods and services at wholesale and retail, but no direct restraint on raw agricultural commodity prices.

*Suspend convertibility of the dollar into gold.

*Surcharge of 10 percent on many imports.

*Reductions in Federal spending and employment.

*Postponement of a Social Security tax hike.

The following proposals await Congressional action:

*Repeal of the 7-percent new-car excise tax.

*Move up hike in personal income tax exemptions to next January 1, rather than a year later.

*Allowance of 10 percent tax credit on investment in plant and equipment.

The whole package has several goals: To break the back of inflation by interrupting the wage-price spiral, to whet consumer spending particularly on American-made goods, to stimulate business manufactures and sales so as to reduce unemployment and spur real economic growth, to right the balance of trade with other countries, and most importantly to rekindle confidence of consumers, businessmen, and foreign countries in the American economy.

much of this gain due to larger quantities purchased.

Exports of U.S. farm products may trail 1970/71's impressive level of $7.8 billion despite recent action which in effect floats the U.S. dollar. However, to the extent that other countries revalue their currencies upward, the floating of the dollar will tend to help foreign sales of U.S. farm products. World grain production is headed up this season, pointing to a reduction in our export levels, despite lower domestic prices. Tight domestic supplies of cotton, and possibly soybeans, may limit exports of these, too.

FOOD PRICES STEADY

The price freeze on most food items comes at a time food prices are predicted to hold fairly level.

The fourth quarter is often noted for some overall decline in grocery store food prices in response to seasonally larger livestock and crop supplies. From the supply standpoint this year, though, seasonal supply increases in meats will be more modest than usual, a situation that might deter a customary fourth-quarter price drop, given strong consumer demand.

The price freeze on processed foods such as canned goods, snacks, fresh red meat cuts, and food eaten away from home adds some assurance that prices will level off in the next few months.

Food-at-home prices for the year probably will average around 3 percent above 1970. This compares with last year's increase of 5.1 percent. The price uptrend in away-from-home eating has continued at a slower pace than last year. The index of all-food prices is expected to average around 3½ percent higher for 1971.

Food prices at grocery stores increased in the second quarter following a year of relative stability. They jumped more than 2 percent over the first quarter to a level some 2½ percent above a year earlier, largely because of shorter supplies and higher prices for fresh vegetables and continued strength in prices of fish and fats and oils products. With 5 percent higher prices paid for away-from-home eating, the all-food index in the second quarter averaged 3 percent above a year earlier.

A SUMMER OF WATCH AND WAIT

It's a worrisome summer for corn watchers. Stretching over larger acreage, feed crops as of August 1 were headed for high yields and record production. That could spell output well in excess of 1971/72 needs, even when reduced carryovers and the blight threat are given consideration. Domestic livestock producers schedule smaller poultry and hog marketings and only a modest increase for fed cattle this fall. Feed grain exports probably will drop in the face of larger harvests in most major producing countries.

It's still too early to say what the blight may do. It has already been found in most corn growing areas, and is causing serious damage in spots. The right warmth and moisture could stir up additional corn leaf blight and hasten its spread. However, most corn was planted early and growing conditions so far have hastened grain maturity.

Recent price declines reflect record production prospects. No. 2 yellow corn at Chicago in late August was off a quarter from the June average of $1.58. Oats and barley prices are down, too, although sorghums have held on better because of heavy feedlot use in the Southwest drought area. Feed grain prices will remain sensitive to crop developments through summer.

ABUNDANT FEED SUPPLY

Feed grain prospects as of August 1 were the best ever for that date. Production indications pointed to a record crop of 200 million tons, a fourth higher than last year. Feed supplies wouldn't rise that much, though, because of a scant 34-million-ton carryover, smallest in nearly 2 decades. Overall, supplies this fall could increase 13 percent over a year ago.

August 1 prospects pegged the corn crop at 5.3 billion bushels. This first corn forecast of the season reflected 12 percent more acreage for grain harvest, stepped-up early season plantings, and great growing conditions with only light blight damage so far, but no allowance for the blight's eventual impact.

Corn yields have rollercoastered recently. From a topper of 84 bushels an acre in 1969, last year's yield thumped down to 72 bushels. Now USDA predicts 83 bushels for 1971. At this level, output would leap 30 percent over last year and 12 percent over the 1967 record.

Blight, which struck hard last season between USDA's August and September crop surveys, could have some curbing effect on final harvest figures. Last year's attack plus dry weather in the western Corn Belt lopped off 580 million bushels between the August forecast and final December figure of 4.1 billion bushels. That much of a loss could be absorbed this year and still leave a record crop.

The other 3 legs of the feed grain crop also were doing handsomely on August 1. Sorghum was forecast to yield a near-record 55½ bushels an acre for a record crop. A projected record barley yield of 45 bushels also would provide a crop increase. Oats, too, were seen headed for record yields that could largely offset smaller planted acreage.

FEED USE MAY RISE

Some of the expected boost in feed grain supplies for 1971/72 is likely to be absorbed in the domestic market. Domestic use could make a moderate gain over the near-record 155 million tons of this season—if livestock returns pick up and lower feed prices lead to heavier feeding rates.

PRICES HEADED DOWN

Following a season of the highest prices in years, feed prices are headed down this fall.

Prior to the August 1 corn forecast, it looked like a small carryover might help out harvesttime prices. But with a crop of 5.3 billion bushels, corn might drop below the loan rate of $1.05 per bushel this fall, but rise seasonally late in the year as the surplus moves into market channels and under loan. Corn prices averaged $1.36 for the 1970 crop, best since 1954.

Grain sorghum prices also did well this season on the strength of higher

corn prices, smaller sorghum supplies, heavy cattle feeding in the Southwest, and good export demand. The July price of $2.37 a hundredweight was the highest July price in years. As the expected larger harvest rolls around, a sharply lower carryover and strong demand will help cushion the drop in prices, but 1971/72 prices are likely to average well below the $2.04 of the 1970 crop.

MEAT OUTPUT TO GAIN

Red meat production in the second half of 1971 will run above year-earlier levels, with increases in beef and pork more than offsetting reductions in veal and lamb and mutton.. Seasonally large meat production this fall likely will cause livestock prices to slip under summer levels, but increasing consumer demand for meat will keep most prices above last fall's levels.

Fed cattle marketings, up 1 percent in the first half, may continue a little larger in the second half. Cattle feeders planned to market 2 percent more cattle this summer than last, and on July 1 feeders in the 23 major feeding States had 2 percent more cattle and calves on feed. Also, there were 3 percent more cattle on feed in weight groups that typically provide the bulk of fourth quarter marketings.

Fed cattle prices for Choice steers at Omaha have ranged mostly between $32 and $33 since mid-February. Prices in late August ran just over $33. Some price weakness may develop this fall when beef and pork output is seasonally large. However, prices of both fed cattle and hogs likely will average higher than last fall because of good demand and prospects for slightly smaller supplies of hogs than in the closing months a year ago.

MORE CATTLE

The feeder cattly supply is up again this year and large enough to support moderate increases in placements on feed in coming months. This year's beef calf crop is up about 4 percent, pointing to further increases in the 1972 feeder cattle supply.

Cow slaughter was up 5 percent in the first half of this year, with all of the increase in the spring.

FEWER HOGS

Based on hog producers' plans for an 8-percent reduction in the June-November pig crop, hog slaughter would logically drop in the first half of 1972 from the heavy output this January-June.

Barrow and gilt prices at 7 markets in late August were about $19.25 per 100 pounds, about $6 below the 1970 summer peak. Hog prices will slip as slaughter picks up seasonally in the fall, but October-December prices are expected to average above last fall's $17.40 average. Prices should strengthen again in early 1972 as slaughter begins to reflect the planned reduction in this fall's pig crop. Despite reports of a bin-busting corn crop this fall, any bullish reaction by producers would not be likely to show in slaughter until late 1972.

LESS COTTON THIS YEAR

The August 1 cotton production estimate of 10.9 million bales for 1971 exceeds 1970 but falls a little short of this season's prospective disappearance. As a result, next summer's stocks may drop slightly from the 4¼ million bales on hand August 1 this year.

Although a gain is indicated for the 1971 crop, sharply lower beginning stocks point to a smaller cotton supply. The supply may drop almost a million bales below 1970/71's 16.1 million.

Both acreage and yields are contributing to the 8 percent bigger cotton crop. Harvested acreage of 11.6 million acres is almost ½-million above last year. However, the indicated national average yield of 452 pounds per acre is only 3 percent above 1970's poor turnout, as early-season growing conditions were generally unfavorable in much of the Cotton Belt.

Use during 1971/72 may total about 11 million bales, down from 11¾ million last season due to smaller exports. Shipments are likely to fall to near 3 million bales, compared with 3.7 million in 1970/71. The weaker export outlook reflects smaller U.S. supplies as well as possibly smaller use and larger production in foreign Free-World countries. Meanwhile, U.S. mill use may equal or slightly exceed last season's 8.1 million bales. Expected gains in general economic activity should help cotton use despite the 1970/71 price rise.

A sharp expansion in U.S. cotton exports and slightly higher mill use raised 1970/71 disappearance to a 3-year high. Shipments increased almost a million bales above the reduced level of 1969/70, primarily because of a sharp drop in foreign Free-World cotton production along with slightly greater consumption. U.S. mill use recorded its first gain since 1965, as competition from domestically produced man-made fibers and imported cotton textiles moderated.

The U.S. cotton carryover on August 1 fell to 4¼ million bales, about 1½ million below a year earlier. Although privately owned stocks increased over 1 million bales to nearly 4 million, CCC stocks plummeted to about 0.3 million, one-tenth of last August's holdings.

As supplies tightened due to a rate of use that outpaced the small 1970 crop, average spot market prices for most qualities of upland cotton continued to strengthen during 1970/71. Most prices now range moderately to sharply above year-earlier levels, with the shorter staples leading the way.

COTTON FARMERS AIDED

With the outlook for continued tight supplies and possibilities of market losses for cotton, the Secretary of Agriculture announced on July 21 that USDA would engage in an all-out effort to help farmers maximize yields and production this season. A major coordinated effort will be directed toward more efficient preharvesting and harvesting operations. In addition, cotton farmers who have been hit by drought or other natural disaster this year are being offered greater income protection for 1972. USDA will permit an adjustment in the farmer's actual 1971 cotton yield up to 90 percent of his 1971 payment yield—instead of the previous level of 80 percent—if his yield this year is reduced by adverse growing conditions.

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LAND MARKET SLUGGISH

Farm real estate markets have lost some steam in the last 2 years. Although land prices in most areas are higher than ever, the confident and bustling land buying of the 1960's that kept values rolling up 6 percent a year is conspicuously absent.

The 18½ million acres transferred by voluntary and estate sales and the $4.8-billion cost were a fourth below levels 2 years earlier. The rise in values continued to slow down in the year ended this March. The average sale value per acre gained 3 percent; the 3 preceding yearly gains had slowed from 6 to 5 to 4 percent.

CREDIT TERMS TIGHTEN

Reduced availability of money for farm mortgage loans, a byproduct of tightened national monetary policy, apparently was the main reason for slow 1970/71 markets. That's the problem cited by real estate dealers, country bankers, and other experts responding to the last 3 semiannual USDA real estate surveys (March 1970, October 1970, March 1971).

The crunch began in 1969 when the Government tightened the money supply to counter inflationary pressures. Interest rates zoomed, in some States overshooting usury limits for noncorporate borrowers. Last winter, the Federal Reserve Board eased up and demand for farmland did perk up a little.

During the March-to-March interval, long-term interest rates found their peaks in the fourth quarter of 1970: 8-8½ percent at country banks, 9 percent at most Federal land banks, and 9¼ percent on insurance company money. Rates have recently drifted lower. Land banks, closely tied to national money markets, now want around 7½ percent. However, prime rates from commercial lenders rose on New York markets, as did interest rates on direct rural housing loans from the Farmers Home Administration.

INVESTING GETS TOUGHER

Even with monetary conditions easier this year, many other influences continue to affect potential farmland buyers, and there is little optimism for a quick return to bustling land markets.

The appeal of farmland to investors in recent years has been reduced by the slowdown in appreciation in most areas, even though land may remain attractive relative to other choices. Over the last 3 years, the index of farm real estate values has risen more slowly than the consumer price index. In the year ended March 1971, for example, land prices rose 3 percent, while prices of all consumer goods rose 4.7 percent.

Earnings in the farm sector have also caused potential investors to take a long look. Latest farm income figures show first-half realized net farm income below a year earlier, despite record intake of cash from farming. The offset came from steeper production expenses.

LENDING SOURCES CHANGE

The limited funds and high interest rates of 1970 shook up the farm money market. Borrowers found approval difficult and borrowing costs and cash requirements steeper than ever before. The importance of various lending sources shifted in the adjustment to tight money and local usury restrictions.

As loanable funds decreased in 1970, lenders rationed carefully among the best-risk farmland buyers. They demanded and got higher downpayments, which had the effect of lowering the national ratio of debt to total purchase price to the lowest level in a decade.

Lending patterns changed considerably during the year ended this March. The sharpest changes occurred in lending by private individuals and in loans not secured by real estate.

In the year ended March 1970, over 60 percent of all funds for farm real estate financing came from land sellers themselves. Most of this money was in the form of land-contract financing, highly popular in the last few years. The rest was in seller mortgages. In the year ended this March, though, seller financing took a sharp setback to 43 percent of all funds extended.

At the same time, a sudden slump also hit land deals not secured by real estate—demand notes offered by private individuals to relatives or by banks to favored customers. These loans are lumped into the cash sales category of farm real estate transfers.